

NIC 06441-84  
14 November 1984

TALKING POINTS:

SOME IMPLICATIONS OF A STRONG DOLLAR

- o Over the last four years there has been a 70% rise in the value of the dollar over the trade-weighted value of other major currencies. The strong dollar has produced benefits for both the US and other countries.
  - It has helped contain inflation and spur economic expansion outside of the United States.
  - It has made US manufacturers cut their costs.
  - The high risk-adjusted return on US investments, which was largely responsible for the strong dollar, resulted in a huge net inflow of foreign funds into the US capital market.
- o However, because of the strong dollar, many US manufacturers during 1984 have secured increased amounts of parts and components abroad.
  - Slower growth in the US domestic economy in the third quarter probably accelerated these moves as companies saw their profit picture weakening.
  - In essence, the long-term trend toward international sourcing of components and parts has accelerated substantially.
- o In anticipation of a falling dollar, many US manufacturers had put off the decision to shift their own production capacity overseas. Now, however, some are beginning to reassess that decision. This has implications for:
  - employment;
  - technology transfer;
  - increasing mixed ownership of business enterprises; and
  - in the long term, complication of US ownership/control of industrial capacity in a war-time setting.
- o With this import invasion and with the US economy advancing at a more moderate pace, protectionist sentiments are becoming stronger.

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SUBJECT: Talking Points on Some Implications of a Strong Dollar

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